

Pension Fund Committee

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Dorset County Council



Date of Meeting	26 November 2015
Officer	Pension Fund Administrator
Subject of Report	LGPS Update - Pooling Investments
Executive Summary	<p>At the meeting of the Committee in September 2015 the Government’s plan to require all LGPS Funds to pool investments was discussed, and it was agreed to work on a proposal to establish a Collective Investment Vehicle for the 8 South West LGPS Funds. Work has continued on these proposals, and officers will be attending a meeting on 19 November to further this work.</p> <p>It is still considered that the proposals being worked on in Project Brunel are the best opportunity for the Dorset Fund to meet the Government’s requirements whilst retaining a good deal of control over its own destiny.</p> <p>More detail is emerging from Central government over their requirements from pooled arrangements, and despite the South West proposal being a bit short of the suggested optimum size of around £25 Billion, positive feedback has been received, and it is believed that the proposals would be well received.</p>
Impact Assessment:	Equalities Impact Assessment: N/A
<i>Please refer to the protocol for writing reports.</i>	Use of Evidence: All relevant evidence is being assessed as part of the project. It is essential that the conclusions are evidence based.
	Budget: The project will need appropriately resourcing to implement, but in the long run should result in significant savings when compared to the current approach.

	<p>Risk Assessment: There are risks associated with the project, and a specific risk register is being created to reflect these. From the Fund's perspective it is considered that the risk of inaction and its unknown consequences are greater than the risks of being part of the project.</p>
	<p>Other Implications:</p>
<p>Recommendation</p>	<p>That the Committee authorise the Fund Administrator to continue to work with South West colleagues on proposals to create a South West Collective Investment Vehicle.</p>
<p>Reason for Recommendation</p>	<p>To proactively respond to the challenge laid out in the Chancellor's budget speech, and to ensure that the Dorset Fund is well positioned in any future restructuring of the LGPS</p>
<p>Appendices</p>	<p>None</p>
<p>Background Papers</p>	<p>Budget Statement July 2015 Previous LGPS Consultations PWC reports on pooling of investments</p>
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1. Background

- 1.1 At the meeting of this Committee in September 2015, members received a report on the Government's intentions to work with the Local Government pension Scheme to pool its investments. This announcement was part of the small print in the Chancellor of the Exchequer's July budget statement. The Government subsequently announced that it would be inviting LGPS Funds to come forward with proposals to meet common criteria for delivering savings. They subsequently announced that these detailed criteria will be issued later in the 2015. There will also be a consultation on the LGPS investment regulation, and on backstop legislation which will ensure that those administering authorities that do not come up with sufficiently ambitious proposals are required to pool investments.
- 1.2 As reported previously, subsequent briefings with Government officials and those from the Local Government Association have provided a good guide as to Government thinking. It has become clear that the criteria which will be used to assess proposals will focus on size, costs (or potential savings) and governance. An additional criterion of that will require funds to "look ambitiously" at UK infrastructure, and to create conditions to enable investment but crucially, with no mandation, has also emerged after the Chancellor's speech at the party conference.
- 1.3 The timetable for this pooling agenda is not entirely clear at this stage; however the Government have said that they need the initial proposals by February 2016. These proposals need to be high level and include initial shape and makeup of pools, but will not need to be in intricate detail. Later in 2016 funds will be required flesh out these initial proposals in more detail, and explain how the proposals will operate.
- 1.4 There have also been anecdotal comments from Government officials that it expects LGPS funds to have all investments pooled by the end of the next parliamentary cycle; 2025. This announcement, should it prove to be the case is recognition from central government that this process will take time, and is not best implemented in one "big bang" approach, but will be better worked through systematically, and allowing for illiquidity of many asset classes.
- 1.5 It also appears that ministers' expectations are that pools will be created on a regional basis, or at very least this will be the "benchmark". It maybe that they will allow other types of pooling arrangement but these will need to justify how they are more effective than a regional approach. It has also been commented that the London Collective Investment Vehicle (CIV) is seen as a good starting point, but that the current voluntary arrangement that it operates needs to become mandatory.

2. South West proposals

- 2.1 At the September meeting of the Committee members agreed that the Dorset Fund support in principle the setting up of a South West Collective Investment Vehicle, and

that the Fund Administrator be authorised to continue the work that had started to establish proposals for its creation.

- 2.2 The South West group consisting of Dorset, Cornwall, Somerset, Devon, Wiltshire, Gloucestershire, Avon (administered by Bath and North East Somerset) and the Environment Agency (due them being based in Bristol) met in Bristol on 16 September to consider a report prepared by PWC on the pooling proposal. PWC had been appointed by the group to assess the potential benefits of pooling investments in the South West, and to consider the most appropriate way to do so.
- 2.3 At the meeting in Bristol, the PWC report was presented, and discussions around the implications of the proposals were productive. The result of the discussions, and further revisions of the report, was that it was accepted that there were significant savings to be had from continuing with the proposals, and that the next piece of work was to identify the most appropriate arrangements for the pool.
- 2.4 Subsequent to the meeting in September a number of meetings have taken place between officers of the South West funds and advisers, including PWC. The meetings have focussed on identifying where the 8 funds have similarities of mandates currently, how any pooling arrangement should be grouped, and what governance structures need to be in place to ensure that the arrangements are successful. The meetings have also named the project; Project Brunel.
- 2.5 The Chief Treasury and Pensions Manager has been involved (either remotely or directly) in all of the discussions, and was present for the discussions around the potential governance and operational structure. Whilst no conclusions have been reached at this stage, it seems likely that the two options will be an Authorised Contractual Scheme (ACS), or a Joint Committee. Each approach has its benefits; the ACS is the vehicle being used by the London CIV, and is perhaps a more corporate approach. The Joint Committee should provide a more familiar governance setup for the funds and committees involved.
- 2.6 The next meeting of the South West group is on 19 November and will be attended by the Chief Treasury and Pensions Manager and the Fund Administrator. At this meeting PWC will present its second report, and this will potentially include discussions around the most appropriate structure for the pool. As this meeting is key to progression of Project Brunel, and is unfortunately after the deadline for preparing reports to the Committee it is proposed that a verbal update is given to the meeting, followed by a more detailed report of the proposals.
- 2.7 It was felt that to support the proposals as they currently stand, it might be helpful for officers from the South West funds to attend each other's Committee meetings. It is intended to demonstrate commitment to collaborative working, and also to support each other in explaining the complexities of the proposals. The meeting of the Dorset Fund will be attended by the Head of the Environment Agency Pension Fund, Dawn Turner, and Nick Buckland will be reciprocating in December.
- 2.8 In addition to the meeting, the Committee will have the opportunity to hear from Jeff Houston from the LGA and Vickie Edwards from the DCLG at the training session on

25 November. The sessions have been arranged as a result of a request at the last meeting, and are intended to give the Committee the chance to raise any questions and concerns that they have over the pooling agenda. The session will also be attended by John Finch from JLT who will give a consultant's perspective on the proposals, and his experience of setting up pooled investments.

- 2.9 It is clear now that the Dorset Fund and Project Brunel will not need to be making detailed proposals to the Government in February. It is pleasing that Ministers have recognised that it would be extremely difficult for administering authorities to meet such tight deadlines to commit to pooling arrangements. In Dorset's case, due to the nature of the proposals it is necessary for the County Council to make the decision for the Fund ultimately to participate in the creation of a pool of investments. A recommendation is required from this Committee to the Council in this regard, and to achieve this prior to February would have not been possible.
- 2.10 The next meeting of this Committee is scheduled for 1 March 2016. Due to the fast moving nature of Project Brunel it may be necessary to convene an early meeting with a one item agenda, if a decision is required. It may also be appropriate to do this by email, however until the Fund is aware of what decision is required it is difficult to gauge the best way of achieving this.

3 Conclusion

- 3.1 Members will receive a more detailed update on the current situation with Project Brunel at the meeting after the meeting in Bristol on 19 November. It may be necessary to table amended recommendations as a result; this will be known ahead of the meeting, and will be shared with the Chairman at his briefing meeting.
- 3.2 In conclusion, Project Brunel has already received public recognition from Government officials and is seen as a good example of Funds working together to achieve the pooling objectives. It is recognised that whilst this recognition is well received, it should not result in complacency and that to ensure that the objectives are met, the work needs to continue. The recommendation at this stage is to continue to build on the work that has already been started, and to authorise the officers to continue to work up the proposals.